



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Pension Fund Fiscal Note 2009 Biennium

Bill #	HB0814	Title:	Revise postretirement benefits and increases in statewide police retirement sys.
Primary Sponsor:	Hamilton, Robin	Status:	As Introduced

Retirement Systems Affected: ☐ Teachers ☐ Public Employees ☐ Highway Patrol ☒ Police
☐ Sheriffs ☐ Firefighters ☐ Volunteer Firefighters ☐ Game Wardens ☐ Judges

Check the box if "Yes".

- ☐ Has this legislation been reviewed by the legislative interim committee?
☒ Has the cost of this legislation been calculated by the system's actuary?
☐ Does this legislation include full funding for any benefit revisions?

	July 1, 2006 Current System	July 1, 2006 With Changes	Increase/ (Decrease)
Present Value of Benefits	\$353,611,000	\$474,490,000	\$120,879,000
Future Normal Costs	\$62,512,000	\$82,370,000	\$19,858,000
Present Value of Actuarial Liability	\$291,099,000	\$392,120,000	\$101,021,000
Present Value of Actuarial Assets	\$175,919,000	\$176,845,000	\$926,000
Unfunded Actuarial Liability	\$115,180,000	\$215,275,000	\$100,095,000
Amortization Period of AAL	21.4 does not amortize		

	July 1, 2006	July 1, 2007	July 1, 2008	July 1, 2009	July 1, 2010
Ave. Employee Contribution Rate	9.00%	9.00%	9.00%	9.00%	9.00%
Employer Contribution Rate	14.41%	14.41%	14.41%	14.41%	14.41%
State Contribution Rate	29.37%	29.37%	29.37%	29.37%	29.37%
TOTAL Contribution Rate	52.78%	52.78%	52.78%	52.78%	52.78%

FISCAL SUMMARY

	FY 2008 Difference	FY 2009 Difference	FY 2010 Difference	FY 2011 Difference
Expenditures:				
General Fund	\$1,000,000	\$0	\$0	\$0
Other-Pension Funds	\$2,045,300	\$2,367,134	\$2,712,106	\$3,081,586
Revenue:				
General Fund	\$0	\$0	\$0	\$0
Other-Pension Funds	\$1,000,000	\$0	\$0	\$0
Net Impact-General Fund Balance:	<u><u>(\$1,000,000)</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>

Description of fiscal impact: In the Municipal Police system - this bill gives a \$500 per month increase to those retirees (and beneficiaries) that retired on or before January 1, 1991 and it increases the Guaranteed Annual Benefit Adjustment (GABA) from 3% to 5% for all GABA recipients. There are four groups:

- 1) the retirees that retired before the 1991 date and did elect the GABA – this group of retirees will get both the \$500/month increase and the increased GABA (264 recipients);
- 2) the retirees that retired before the 1991 date and did not elect GABA – this group of retirees will get a \$500/month increase (51 recipients);
- 3) the retirees that retired after the 1991 date and did elect the GABA – this group of retirees will get the increased GABA (254 recipients);
- 4) the retirees that retired after the 1991 date did not elect the GABA - this group of retirees will not get any additional benefit (20 recipients).

FISCAL ANALYSIS**Assumptions:****Montana Public Employees Retirement Administration (MPERA)**

1. For purposes of this fiscal impact statement, MPERA assumed that this is the only statutory amendment being considered. If other provisions are enacted, the actuarial cost impact associated with this amendment may be different.
2. No adjustments have been made for actuarial gains or losses that may have emerged since the last valuation date, June 30, 2006.
3. The change in the GABA will not impact future patterns of retirement, termination of employment or any other actuarial assumption.
4. The \$1 million in funding called for in this bill would occur July 1, 2007.
5. On the first day of the month following passage, each member who retired on or before January 1, 1991 would receive a permanent one-time monthly pension benefit increase equal to \$500.
6. The GABA increases payable each January 1 would be increased from automatic 3% increases to automatic 5% increases, beginning with the first January 1 following passage.

	<u>FY 2008 Difference</u>	<u>FY 2009 Difference</u>	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>
<u>Fiscal Impact:</u>				
<u>Expenditures:</u>				
Benefits	\$2,045,300	\$2,367,134	\$2,712,106	\$3,081,586
Transfers	\$1,000,000	\$0	\$0	\$0
TOTAL Expenditures	\$3,045,300	\$2,367,134	\$2,712,106	\$3,081,586
<u>Funding of Expenditures:</u>				
General Fund (01)	\$1,000,000	\$0	\$0	\$0
Other-Pension Funds	\$2,045,300	\$2,367,134	\$2,712,106	\$3,081,586
TOTAL Funding of Exp.	\$3,045,300	\$2,367,134	\$2,712,106	\$3,081,586
<u>Revenues:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
Other-Pension Funds	\$1,000,000	\$0	\$0	\$0
TOTAL Revenues	\$1,000,000	\$0	\$0	\$0
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$1,000,000)	\$0	\$0	\$0
Other-Pension Funds	(\$1,045,300)	(\$2,367,134)	(\$2,712,106)	(\$3,081,586)

Long Range Impacts:

This bill would create an unfunded liability in the Municipal Police system.

Technical Notes:

1. This proposal would increase the present value of benefits by over \$120 million while only providing \$1 million in funding. The proposed bill violates both the Board's funding policy and the Principles and Guidelines adopted by the SAVA Committee on June 22, 2006.
2. Increasing the Guaranteed Annual Benefit Adjustment (GABA) for one system will result in leap-frogging by the other systems requesting similar or better improvements to their GABA.
3. A small number of recipients are not receiving any increase according to the provisions of this bill which may create leap-frogging within the system.
4. MPERA is uncertain of the significance of the January 1, 1991 date.
5. There may be issues regarding an automatic 5 percent Cost-of-Living adjustment in light of the final regulations under IRC Section 401(a)(9).

Sponsor's Initials

Date

Budget Director's Initials

Date